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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

OMB APPROVAL  
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Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/01 AND ENDING 12/31/01  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Gabelli Direct Inc.

OFFICIAL USE ONLY

FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

One Corporate Center

(No. and Street)

Rye

New York

10580-1422

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Richard C. Sell

(914) 921-5156

(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Ernst & Young LLP

(Name — if individual, state last, first, middle name)

787 Seventh Avenue

New York

NY

10019

(Address)

(City)

(State)

Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

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THOMSON  
FINANCIAL

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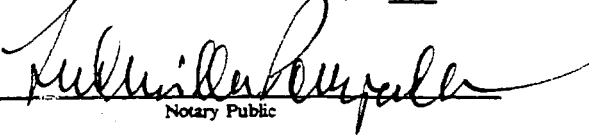
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

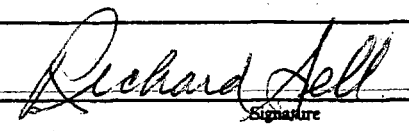
Handwritten signature/initials

## OATH OR AFFIRMATION

I, Richard C. Sell, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Gabelli Direct Inc., as of December 31, 2001, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

LUDMILLA POMPADUR  
NOTARY PUBLIC, STATE OF NEW YORK  
NO. 01PO6028397  
QUALIFIED IN WESTCHESTER COUNTY  
COMMISSION EXPIRES JULY 3, 2002

  
Notary Public

  
Financial & Operations Principal  
Title

This report\*\* contains (check all applicable boxes):

- ☐ (a) Facing page.
- ☐ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☐ (g) Computation of Net Capital
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☐ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

STATEMENT OF FINANCIAL CONDITION  
Gabelli Direct, Inc. (SEC No. 8-37104)

December 31, 2001  
with Report of Independent Auditors

Gabelli Direct, Inc.

Statement of Financial Condition

December 31, 2001

Contents

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## Report of Independent Auditors

The Board of Directors and Stockholder  
Gabelli Direct, Inc.

We have audited the accompanying statement of financial condition of Gabelli Direct, Inc. as of December 31, 2001. The statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on the statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Gabelli Direct, Inc. at December 31, 2001, in conformity with accounting principles generally accepted in the United States.

*Ernst & Young LLP*

February 8, 2002

Gabelli Direct, Inc.

Statement of Financial Condition

December 31, 2001

**Assets**

Cash and cash equivalents	\$ 30,900
Investments in securities	20,100
Goodwill (less amortization of \$4,026)	56,360
Due from related party	<u>1,200</u>
Total assets	<u>\$108,560</u>

**Liabilities and stockholder's equity**

Due to related party	\$ 10,050
Accrued expenses and other liabilities	<u>340</u>
Total liabilities	10,390

Stockholder's equity	<u>98,170</u>
Total liabilities and stockholder's equity	<u>\$108,560</u>

*See accompanying notes.*

## **Gabelli Direct, Inc.**

### **Notes to Statement of Financial Condition**

December 31, 2001

#### **A. Organization**

Gabelli Direct, Inc. (the "Company," formerly Lynch Capital Corporation) is a broker-dealer registered under the Securities Exchange Act of 1934. The Company is a wholly-owned subsidiary of Gabelli Securities, Inc. ("GSI" or "Parent") which is a majority-owned subsidiary of Gabelli Asset Management Inc. ("GBL"). GSI acquired all of the outstanding stock of the Company on December 22, 2000, in a transaction accounted for under the purchase method of accounting. Stockholder's equity has been restated to reflect the reorganization of the Company at January 1, 2001. Goodwill arising from the transaction has been recorded in the Company's statement of financial condition in accordance with the Securities and Exchange Commission's guidelines set forth in Staff Accounting Bulletin No. 54, "Push Down Basis of Accounting Required in Certain Limited Circumstances."

The Company acts as an introducing broker for security transactions initiated by its Parent and affiliates. All transactions for its customers are cleared through and carried by a New York Stock Exchange member firm on a fully disclosed basis. Accordingly, customer positions are not reflected in the accompanying statement of financial condition. The Company is exposed to credit losses on these open transactions in the event of nonperformance by its customers, pursuant to conditions of its clearing agreement with its clearing broker. This exposure is reduced by the clearing broker's policy of monitoring the collateral and credit of the counterparties until the transaction is completed.

#### **B. Significant Accounting Policies**

##### **Cash Equivalents**

The Company generally classifies money market funds and other highly liquid investments with a maturity of three months or less as cash equivalents.

##### **Securities Transactions**

Investment in securities, consisting of warrants and common stock acquired in a private placement, is stated at cost which approximates fair value.

## Gabelli Direct, Inc.

### Notes to Statement of Financial Condition (continued)

#### **B. Significant Accounting Policies (continued)**

##### **Goodwill**

Goodwill is amortized on a straight-line basis over the Company's estimated useful life of 15 years and was \$4,026 in 2001. Effective January 1, 2002, new accounting standards related to acquisitions and goodwill will require the Company to stop amortizing goodwill and test goodwill for impairment.

##### **Fair Values of Assets and Liabilities**

The carrying amounts of all assets and liabilities, other than fixed assets, in the statement of financial condition approximate their fair values.

##### **Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the statement of financial condition and accompanying notes. Actual results could differ from those estimates.

#### **C. Related Party Transactions**

At December 31, 2001, the Company had an investment of \$30,900 in the Gabelli U.S. Treasury Money Market Fund, a mutual fund advised by Gabelli Funds, LLC, an affiliate of the Company, which is included in cash equivalents in the statement of financial condition.

In 2001, certain administrative expenses of the Company were paid for by GBL.



## Gabelli Direct, Inc.

### Notes to Statement of Financial Condition (continued)

#### **D. Income Taxes**

The Company accounts for income taxes under the liability method prescribed by Financial Accounting Standards Board Statement No. 109 ("FAS 109"). Under FAS 109, deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial accounting purposes and the amounts used for income tax purposes.

The Company is included in the consolidated U.S. Federal income tax return of its Parent. Pursuant to an agreement with its Parent, the Company's Federal income tax benefit is equivalent to the total amount the Company would have recorded for such tax benefits had the Company filed on a stand-alone basis. The income tax benefit of \$1,150 has been included in due from related party in the statement of financial condition.

The difference between the Company's statutory U.S. tax rate and its effective tax rate is primarily due to state taxes.

#### **E. Net Capital Requirements**

As a registered broker-dealer, the Company is subject to the Uniform Net Capital Rule 15c3-1 (the "Rule") of the Securities and Exchange Commission which specifies uniform net capital requirements for its registrants. The Rule requires maintenance of minimum net capital and that the ratio of aggregate indebtedness to net capital, as defined, shall not exceed 6-2/3%. These requirements also provide that equity capital may not be withdrawn or cash dividends paid if certain minimum net capital requirements are not met. At December 31, 2001, the Company had net capital computed under the Rule of \$19,892, which was \$14,892 in excess of the required minimum capital of \$5,000.

The stockholder of the Company intends to fund the Company with capital contributions to the extent necessary so the Company may continue to meet its net capital requirements.